



Michigan Milk Producers Association

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Office of the Hearing Clerk
USDA, Room 1081, South Building
1400 Independence Ave., S. W.
Washington, D.C., 20250

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Re: Recommended Changes to the Class III and Class IV Pricing Formulas Included in the Final Rule for the Consolidation and Reform of Federal Milk Orders

Dear Sir or Madam:

Michigan Milk Producers Association (MMPA) has reviewed the testimony of the various participants attending the public hearing regarding recommended changes to the Class III and IV pricing formulas and we would like to add the following comments for your consideration:

Support for the National Milk Producers Testimony. We are a member of the National Milk Producers Federation (NMPF) and we fully support the position they presented at the hearing.

Price Series for Use in Manufacturing Formulas. We support the continued use to the National Agricultural Statistical Service's (NASS) price series for the Class III and IV pricing formulas. We agree that this data provides the broadest range of price information and is representative of the product prices realized by the dairy industry. We also continue to support mandatory reporting and auditing of the NASS results.

Butterfat price adjustment. We support reducing the Class IV butterfat price by not more than \$0.06 per pound of butterfat to allow for the recovery of the lost gross margin experienced by butter manufacturers as a result of the change in butterfat pricing that became effective January 1, 2000. We do not support reducing the butterfat price for Class I, II, or III.

Land O'Lakes testimony articulated in exhibit number 33, clearly identifies the additional cost factors unique to Class IV butterfat that have led to this request. The \$0.0497 of additional transportation and extra handling costs are similar to

our experience for the bulk butter manufacturing operations at our Ovid and Constantine, Michigan plants.

We believe that the arguments expressed by several of the participants who speculated that only changing the butterfat price for Class IV would lead to disorderly market conditions are unfounded. Testimony presented on cross examination by William Schiek of the Dairy Institute of California identified the \$0.0370 to \$0.0393 differences in butterfat cost found in California between the Classes of milk used for ice cream versus butter/powder. Mr. Schiek was not aware of any circumstances where this price difference has caused any disorderly marketing consequences. Differences at these price levels clearly have not lead to disorderly marketing conditions in California and would not disrupt marketing in the federal order system.

Make Allowances. We support the make allowance adjustments recommended by NMPF for all Classes of milk. We caution against the logic presented by IDFA and others that suggest a low risk of setting make allowances too high. We represent over 2,700 dairy farmers that may not all survive a market adjustment period that theoretically might return greater premiums back to producers if make allowances were set too high. We believe that it is critical to use the "right" make allowance for each Class price determination and are confident that the adjustments recommended by NMPF will meet that objective.

We support the inclusion of a "snubber" concept for the whey price in the calculation of the other solids value in the determination of the Class III price. On page 1607, line 9, of the hearing testimony during Mr. Hollon's cross-examination, he references, "... one of the most difficult things to try to explain is why a regulated price is negative..." Under the proposed system, if the survey price of whey were less than the make allowance, then the other solids value would be negative and actually serve to reduce the Class III price. We believe that the value of other solids used in the Class III milk price should add to the value of milk and under no circumstances be allowed to subtract from the milk value. We recommend that the whey price used in the calculation of other solids value be limited to the greater of the whey survey price or the whey manufacturing allowance plus any marketing or return on investment used in the calculation of the other solids value.

Yield Factors. We support the current yield factors for all Classes of milk with the exception noted by NMPF regarding the proposal to change the butterfat recovery factor from 1.582 to 1.6 in the protein price determination.

Simplify the Class III protein price formula. We presented testimony to support the simplification of the current price calculation as follows:

(NASS cheese survey price - .1702 - (butterfat price x .3732)) ÷ .2915

Exhibit 44 details the mathematical steps taken to reorganize the current protein price formula into the proposed format. This recommendation is presented strictly as a means of presenting the protein value calculation in a simpler and easier to explain format for users in the dairy industry. This proposal is not intended to endorse any of the current make allowance or yield factors. If the industry determines that it is necessary to modify the make allowance or yield factors in the current formula, the simplification steps outlined in Exhibit 44, with any necessary modification, should be used to organize the protein value formula into a similar format.

Testimony by Ed Coughlin of National Milk Producers Federation and Michael Brown of National All-Jersey Inc. supported the mathematical accuracy of the formula and its ability to simplify the expression in a manner easier to understand by people within the dairy industry.

These comments are submitted on behalf of the Michigan Milk Producers Association which is a member owned and operated dairy cooperative serving over 2,700 dairy farmers in Michigan, Ohio, Indiana and Wisconsin.

Sincerely,



Clayton Galameau
Director, Manufactured Sales and Operations